

TRADE POLICY AND THE 21ST-CENTURY ECONOMY

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Good evening. I want to thank Jeff Garten and the Yale School of Management very much for inviting us to participate in this conference. I am honored to participate in Jeff's program, knowing first hand his ability – to see trends early and look ahead to the issues of the future.

I want to talk tonight about how we can build a foundation of stability, growth, and social justice in a global economy radically transformed by innovations in technology and communications. I want to talk about the role of government – specifically in the area of trade policy – in enhancing the prospects for economic and social progress in this new economy. That role is being transformed by technological innovation, which, in addition to dramatically affecting our economy and the focus of our trade agenda, has also created new players and introduced new perspectives in the making of trade policy. The interaction between government and the private sector has become increasingly complex and is constantly shifting—given the new issues, the increasing public interest in trade, the new players, the role of technology and the increasingly connected nature of the global economy. I want to talk about how all of these changes together have affected government's role vis-a-vis business and civil society.

The world economy today is much different from the insulated national economies of the Bretton Woods era. As Tom Friedman has written, if the preceding era was marked by blocs, borders, and barriers, the new global market place can be characterized as a web. Where economic crises in one part of the world can easily spill over into others and, conversely, where growth in one country means new market opportunities for others.

Our predecessors in the post-World War II era of distinct national economies created a global economic framework: they established international institutions, including the IMF, the World Bank, the GATT, the UN -- and new rules and policies that gave expression to progressive ideals, and a commitment to economic progress.

The world trading system continues to be vital to promoting economic growth, stability and rising living standards, in particular, through the largely unnoticed, stabilizing role the WTO played during the financial crisis. The network of binding commitments and rules in the WTO helps countries under pressure to resist the temptation of closing their borders in response to the crisis, quite unlike the cycles of protectionism and retaliation that were so destructive earlier in the century. The challenge before us in trade policy is to build upon and adapt our world trading

system to ensure that it effectively and fairly meets the demands of the new global market place - open not protected economies, international not national capital markets, global not local competition. It must be grounded in democratic values and participation, reflect the increasing concerns of our citizens, and at the same time embrace and seize upon the technological advances that have transformed our economy. This must reflect ideals and values, rules and policies that are applied internationally, but which rest on broad national consensus within the United States and in other countries.

MORE PLAYERS AT THE TABLE

One of the key changes with which everyone, including government, must work with is that the same technology-based forces that have blurred blocs and borders with respect to business and trade have also profoundly democratized international politics, intensifying the role and interaction of private actors and NGOs in the trade policy process. Networked information makes possible the rapid dissemination of – and coordination of opinion on – public policy issues. This, in turn, has led to greater openness and responsiveness of government, which is critical to effectiveness and legitimacy.

THE ROLE OF GOVERNMENT IN THE NEW ECONOMY

In this new economy, government, in the trade area, should promote and facilitate growth and rising living standards; and at the same time ensure protection of consumers, the environment, and workers, and maintain a safety net for the most vulnerable. My belief, and the premise on which the Clinton Administration's trade policy rests, is that these goals can be reconciled. Government has an important role in working with all sectors of society to advance simultaneously economic progress and social justice.

Our high-tech trade policy, for example, reflects this premise. In essence, we have four principles. First, we encourage research and development through protection of intellectual property. Second, we help to create economies of scale that support investment through guarantees of open markets. Third, we allow new products and services to enter markets, while ensuring high standards of consumer protection, by encouraging fair, transparent and accessible regulatory policies. And finally, we work to prevent hasty and unnecessary decisions that block or slow technical advance.

ELECTRONIC COMMERCE

Electronic commerce provides a case example of the emerging role of government, illustrating the impact of technology, the increased number of interested parties and the essential role of government as facilitator. E-commerce – the use of the Internet and other forms of electronic transmissions to buy or sell – is making companies more efficient, as computers allow them to cut inventories, provide better and more timely service, and meet customer demand more effectively. Internationally, the Internet is allowing businesses and customers to find one another

more rapidly, to reduce the complexity of finding and filling out paperwork, and to erase borders completely for products available in digital form, and this new form of commerce enables small and medium size companies to participate more effectively in the world economy.

For consumers, electronic commerce will raise living standards and create tremendous new sources of leverage over companies. It will give consumers new power to compare price and quality with vendors the world over, and make buying more convenient.

But electronic commerce also raises some troubling questions. Governments must reflect on the ways to adapt national trade policies to the borderless world of the web. Consumers – and businesses too -- know that together with rising living standards and better prices come concerns about Internet scam artists, abuse of credit cards and personal information, and other privacy issues.

And so our immediate policy challenge emerges. Consumers should get the maximum benefits of new technologies. Our companies, our national economy, and our trade partners should be able to use them to the best effect. And we should maintain high standards of public safety, privacy and consumer protection.

When we apply these questions to trade policy, we confront an additional challenge. For fifty years the United States has followed a policy of opening markets and reducing trade barriers, which generally manifest at national borders. The trade policy questions raised by the Internet, however, demand a policy that is in many ways inverse to this approach: cyberspace is a world with no natural borders, and as yet no trade barriers either. Rather than dismantling trade barriers, we must prevent them from coming into existence in the first place.

This is a complex challenge, made more so by the rapid growth of the Internet and electronic commerce. The Internet, with three million users in 1995, now has 140 million worldwide, with 52,000 new Americans logging on each day; by 2005 it may reach a billion people around the world. Electronic commerce, totaling about \$200 billion last year, may reach \$1.3 trillion in the United States alone by 2003 – and many other countries are expanding just as quickly, with e-commerce in Thailand likely to quintuple this year, and e-commerce in India growing by perhaps \$15 billion within two years.

Looking more closely at individual industries, the possibilities are even greater. In some fields – such as software, entertainment, health and education—electronic commerce opens up the prospect of instantaneous delivery of services anywhere in the world, bypassing ports, customs, and transport.

Today, in trade terms, the Internet is pristine. The framework for trade over the Internet has just begun to develop in the past two years.

PREVENT MISTAKES

Our trade policy is thus driven by several fundamental circumstances. First, the need to create a trading environment in which this new burgeoning commerce can flourish. Second, that neither government, business, nor even the best-informed scientists and engineers can predict the future of the technology. Third, that there are no natural borders to cyberspace, and the development of policies and solutions must as much as possible, be a worldwide effort.

We are seeking to reflect these circumstances and principles of promoting the unimpeded flow of commerce chiefly through the WTO. Indeed, it is interesting that industry leaders that have typically been among the most independent and most skeptical of government see an essential role for government in seeking to establish the proper competitive framework for e-commerce in the WTO. Most immediate is our initiative to keep cyber-space duty-free -- that is, to prevent the imposition of tariffs on electronic transmissions. To impose customs duties for electronic transmissions would be a burden on the development of this technology and it would be extraordinarily difficult to collect these charges. It would both slow the growth of electronic commerce, and encourage that growth to take place outside the law.

Right now, no member of the WTO considers electronic transmissions imports subject to duties for customs purposes. There are no customs duties on cross-border telephone calls, fax messages or computer data links, and this duty-free treatment should include electronic transmissions on the Internet. We secured a temporary "standstill" on application of tariffs in this area at the WTO last year, and we are working toward consensus on extending it this year at the WTO Ministerial in Seattle.

Looking further ahead, the task becomes more complex. We have begun an ambitious work-program at the WTO. We want to ensure, for example, that developing countries have Internet access through a strong capacity-building program. We look to avoid premature classification of those products, which can be delivered electronically as "goods," or "services," which would raise a large set of thorny and politically contentious issues. We are working toward establishing a firm principle that trade rules should be technologically neutral -- that is, we should not treat products delivered electronically differently than the same goods delivered in more traditional fashion -- in other words that the existing WTO rules of nondiscrimination, transparency, and the least trade restrictive approach to regulation should apply. And most of all, we want to remain flexible -- to do no harm -- as we see how this area of commerce develops.

And, of great importance but under the responsibility of other agencies, we are working with our trading partners to develop a consensus on the appropriate treatment of consumer issues. Electronic commerce cannot flourish without an environment of trust, where consumers feel safe from unscrupulous practices. Industry-led efforts to maintain this trust are the optimal solution, but where those fail, governments have a clear role in protecting their consumers. In all areas where the government plays a role in e-commerce, however, we should ensure that such action

meets a clear standard established by the WTO to ensure that trade is not impaired -- that measures are the least burdensome possible, and not used as trade barriers.

LEARN FROM THE PAST

Much of global trade policy since World War II amounts to undoing the mistakes of various sorts which stem from the 1920s and 1930s -- years in which an open world economy was unraveled by colonial preference schemes, the Smoot-Hawley tariff in the United States, and communism in Russia and later China. Thus our work aims at ending tolerance of intellectual piracy; ensuring market access by removing tariffs and eliminating subsidies; and replacing monopolies and unscientific standards with fair and transparent regulation. The ideal approach though, would be to prevent mistakes in the first place. This is the opportunity we have in e-commerce.

CONCLUSION

Let me say in conclusion that institutions must adapt to the new environment to reflect the fast-paced changes in our economy, mobilized interest groups and burgeoning technology. When it comes to trade, we need to learn from the lessons of the past and be creative and innovative about how we apply them to the problems and opportunities of the future.

As the examples I have given this evening illustrate, we believe we are taking an integrated approach to working to adapt our trade institutions, which are key to global prosperity and stability.